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TAGS: KTEX ECON ETRD ELAB

SUBJECT: THAI TEXTILES AND APPAREL: COPING WITH A  
POST-QUOTA WORLD

REF: STATE 146213

¶1. Summary: Thailand's textiles and apparel exports continue to grow following the expiration of the global quota system, albeit at a more moderate pace than during the banner year of 2004. The overall sector has seen exports rise by a solid 5.8 percent in the first half of 2005, defying the most pessimistic predictions that forecast a shrinkage in Thailand's export markets due to increased competition from China. In fact, the Thai government is reporting that exports to the U.S., Thailand's largest export market, increased by 10.3 percent through June of this year. Thailand's textiles and apparel producers attribute this performance to their increased emphasis on higher-value, higher quality products, as well as improvements in supply chain systems coordinated with large Western buyer firms. Producers also believe Thailand's infrastructure and higher-skilled labor have induced foreign factory owners to resist moving to China en masse, although some factory closures have been reported. End Summary.

TEXTILE AND APPAREL EXPORTS GROW, BUT SLOWER THAN IN 2004

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¶2. Thai exports of textiles and apparel in 2005 have experienced surprisingly solid growth despite the lifting of global quotas on January 1 and the subsequent increase of Chinese exports to the U.S. The Thailand Textile Institute (TTI) reports that total textiles and apparel exports grew 5.8 percent in value during the first half of 2005 (January-June). While exceeding some expectations, the rate of growth is a sharp drop-off from the 17.1 growth rate experienced in 2004. Exports to the U.S., Thailand's largest export market, have grown 10.3 percent in 2005 through June, with the bulk of the increase being in cotton fabrics and clothing, which rose almost 19.6 percent in value.

¶3. In interviews with the Embassy, a wide range of Thai textile manufacturers attributed Thailand's continuing competitiveness to a stronger focus on higher-value and higher-quality garments, and sharp improvements in logistics and supply chain systems that were coordinated with U.S. buyers in recent years. Concurrent with the Thai government's effort to develop Bangkok into a "global fashion hub," Thai garment producers are developing niche markets for products of their own design and incorporating Thailand's traditional high quality fabrics, such as silk, for quality-conscious Western consumers. According to the Thai Garment Manufacturers Association (TGMA), Thai exporters are also increasing their direct marketing to U.S. buyers, providing more of their own shipping and insurance services and bypassing middlemen, compared to 2003 and prior years.

¶4. Exporters associated with the TGMA and TTI said they have seen little dramatic change in the number of foreign-owned factories, Asian or otherwise, since the end of the quota system this year. They admitted that some low-cost factories have moved to China to take advantage of economies of scale and labor costs that are estimated to be 40 to 60 percent lower than those in Thailand (for comparison, Thai labor costs are estimated to be roughly 17 to 22 percent of those in Hong Kong, South Korea and Taiwan). In the Northeast, the Sakon Nakon Chamber of Commerce did report this week that they've lost almost half of their low-cost garment production due to Chinese competition. Other exporters report, however, that a number of factory operators have been disappointed with the lower-quality output from Chinese factories, and have moved back to Thailand. Thai producers say Thailand retains a competitive advantage in worker skills, infrastructure, and less bureaucratic interference, which has allowed them to reap larger orders from larger buyers who are less concerned about achieving the maximum savings on labor costs. Thai producers also do not see the rise of China and India as a one-way street. According to a Thailand Textile Institute (TTI) executive, "China and India may cause our lowest-cost and most old-fashioned factories to go under, but our fabric exports to China have risen 23 percent this year."

"We are still in a precarious industry," he added, "and we hope that the U.S. and other governments take a strong look at China's subsidies to its textile industry. But, so far,

we are surviving in the post-quota world quite well."

#### PRODUCTION AND EXPORT DATA

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15. The following figures were requested in reftel para 4:

Total Manufacturing Production 2004:

-- USD 57.4 billion

Total Textiles and Apparel Production 2004:

-- USD 11.1 billion

Textiles-Apparel Share in Imports 2004:

-- 3.00 percent

Textiles-Apparel Share in Exports 2004:

-- 6.6 percent

Textiles-Apparel Share in Imports 2005 (Jan-Jul):

-- 2.66 percent

Textiles-Apparel Share in Exports 2005 (Jan-Jul):

-- 6.1 percent

Total Employment in Manufacturing:

-- 5,597,000

Total Employment in Textiles and Apparel:

-- 1,084,130

Note: no reliable figures for Total Industrial Production are available.

#### LITTLE IMPACT FROM SAFEGUARDS

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16. Textile and apparel manufacturers told the Embassy that they expect only marginal gains from efforts by the European Union (EU) and the U.S. to place safeguard restrictions on the influx of textiles from China. The Thai Garment Development Foundation (TGDF) said that U.S. buyers who normally import from China are likely to place more orders from other countries with similarly low labor costs, such as Sri Lanka, Bangladesh, India and Pakistan. The TGDF said Thai producers were less competitive than these countries in low-labor cost products such as bras, sweaters, gowns and pants. The TGMA also said that Thai textile and apparel factories were already operating near full capacity and would not be able to take on a significant amount of new orders, partly due to a persistent labor shortage. The apparel industry lacks qualified industrial engineers, managers and other staff as the best of Thailand's skilled workers are increasingly looking to other industries or to working abroad, in the Middle East or Taiwan for example, to earn higher wages. The TGMA also said it expected U.S. producers to assume most of the new orders arising from curbs on Chinese imports into the U.S.

17. The Thai government has not considered implementing safeguards to reduce Chinese textile and apparel imports into Thailand. Thai imports of textiles and apparel (including leather goods and footwear) are only 2.7 percent of total imports, and Chinese clothing imports do not compete directly with locally-produced products.

#### LABOR SITUATION

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18. The textile and apparel industry comprises over 4,500 factories and employs over one million workers, a number which has remained steady for the past 7 years. Employment has remained between 1,000,000 and 1,100,000 since 1998, with little variation in between, according to the Ministry of Industry (Thailand's total labor force is around 35 million). Both employers and labor leaders say that the recent increase in global competition in textiles and apparel has not appreciably affected local labor conditions, although opinions on existing conditions differ sharply. A high-level representative of the TGMA unsurprisingly told Laboff this week that Thai factory workers were "treated like kings," while a regional labor expert at the International Labor Organization's Bangkok office says enforcement of labor standards in Thailand is among the weakest in Southeast Asia. Any realistic assessment must note that conditions for laborers vary widely depending on the enterprise involved. Factories sourced by certain large U.S. apparel firms have received favorable reviews by independent factory monitoring groups, while low-cost textile plants in border regions which source a large number of migrant workers, such as Mae Sot along the Burmese border, are often poorly monitored and have very poor labor conditions. Overall, the labor situation in

Thailand's textile and apparel industry has not changed significantly since the expiration of global quotas in January, 2005.

HOPING FOR AN FTA - BUT WITH FLEXIBLE RULES OF ORIGIN

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19. Thai textile and garment producers predictably differed on the scale of benefits that would accrue to their industries if a prospective U.S.-Thai Free Trade Agreement, currently under negotiation, is implemented. Textile producers associated with the TTI said they stood to gain from increased textile exports to the U.S. even if a "yarn forward" rule were included in the FTA, due to Thailand's large usage of imported U.S. yarn and thread. However, a producer from the garment-producing TGDF (who is also a member of the Thai FTA negotiating team for textiles), said that Thailand's gains would be significantly curbed by "overly restrictive rules of origin." The producer said that Thailand wanted the flexibility to use fabric from other countries, especially other countries who are already U.S. FTA partners, in garment production. "None of us will lose from an FTA," he added, "but the benefits will vary widely depending on the outcome."

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